

VZCZCXYZ0001
RR RUEHWEB

DE RUEHKB #0461/01 1371259
ZNY CCCCC ZZH
R 161259Z MAY 08
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 5314
INFO RUCNCIS/CIS COLLECTIVE
RUEHYE/AMEMBASSY YEREVAN 1460
RUEHSI/AMEMBASSY TBILISI 1710
RUEHFR/AMEMBASSY PARIS 0523
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L BAKU 000461

SIPDIS

E.O. 12958: DECL: 05/16/2018
TAGS: [ECON](#) [ETRD](#) [EFIN](#) [KCOR](#) [PREL](#) [PGOV](#) [AJ](#)
SUBJECT: GOVERNMENT "SHARKS" PUSH LARGE AMERICAN INVESTOR
TO QUIT AZERBAIJAN

REF: 07BAKU533

Classified By: AMBASSADOR ANNE E. DERSE PER REASONS 1.4 (B,D)

11. (C) SUMMARY: In a sign of the difficult business environment in Azerbaijan, a major foreign investor has decided to sell its investment and leave Azerbaijan. Russia's Baltika Breweries, a subsidiary of Carlsberg, announced the purchase of Baku Castel on May 15. CEO of the local brewery Baku Castel, Jean-Paul Lanfranchi, said that he feared for his multi-million dollar investment and decided it was time to sell and leave Azerbaijan permanently after being told to sell 40 percent of the brewery to presidential security chief Beyler Eyyubov. Lanfranchi said that there were "too many sharks in the pool" in Azerbaijan and that it was too difficult to do business. Citigroup Venture Capital International and Lanfranchi led the group to purchase Baku Castel in 2005 for USD 26 million, with Citigroup investing 92 percent of the capital. Lanfranchi said that there had been previous offers to buy the brewery from Carlsberg and Turkish Efes which he never contemplated until the recent pressure by Eyyubov. Lanfranchi also sold his vineyard in southern Azerbaijan under pressure to the Chairman of the State Property Committee. While the sale of the Baku Castel will not hurt Azerbaijan's "Doing Business" rating, the tactics employed by local interests are a negative sign for businesses looking to work in Azerbaijan. END SUMMARY.

12. (C) Jean-Paul Lanfranchi, the CEO of Brasseries International Holding, the owner of local brewery Baku Castel (the largest brewery in Azerbaijan), relayed on May 15 that he decided to sell the brewery to Baltika Beer, a subsidiary of Danish brewer Carlsberg AS, under pressure from presidential security chief Beyler Eyyubov. Lanfranchi said that in recent months Eyyubov had been contacting his offices demanding Lanfranchi sell him 40 percent of the brewery. In the end, Lanfranchi feared for his multi-million dollar investment and decided it was time to sell the brewery in Azerbaijan and leave the country permanently. There does not appear to be a connection between Baltika and presidential security chief Eyyubov. Lanfranchi said that there had been previous offers to buy the brewery from Carlsberg and Turkish Efes which he never contemplated until the recent pressure by Eyyubov. (COMMENT: Eyyubov is rumored to be active in numerous businesses on behalf of high-level GOAJ officials, including several oil companies and the former jewelry chain of jailed minister Farhad Aliyev "Prestige.")

13. (C) Lanfranchi said that there were "too many sharks in the pool" in Azerbaijan and that it was too difficult to do business. He rhetorically asked why the government acted this way, adding that he does not have similar problems with brewery investments in Armenia and Georgia. Lanfranchi said that he and Citigroup had not planned to sell Baku Castel so

soon and had hoped to hold on to the asset for several more years. Baku Castel was a profitable business and one of the country's largest taxpayers. Lanfranchi hinted that Russian-based Baltika Beer would be better suited to deal with the local "sharks" as Azerbaijan's ruling elite have many connections to Moscow and would not dare give problems to Baku Castel's new owners.

¶4. (C) Lanfranchi also said that he has sold his vineyard in Jalalabad to Kerem Hassanov, the State Property Committee Chairman. Lanfranchi had previously sold a minor share to Hassanov who then demanded a larger stake. Hassanov, according to Lanfranchi, offered to sell his share to Lanfranchi but warned that he would have problems with the local authorities. Again fearing for his multi-million dollar investment, Lanfranchi said that he decided to sell his vineyard to Hassanov.

¶5. (C) In 2005, Citigroup Venture Capital International and Lanfranchi had purchased Baku Castel Georgia and Azerbaijan operations from French conglomerate Groupe Castel for USD 26 million (REFTEL). The new holding company, Brasseries International Holding (Eastern) Ltd (BIH Eastern), owns and operates the Baku Castel operations. Citigroup provided USD 25.3 million of the total cost, with Lanfranchi and a small boutique mergers and acquisitions consulting firm, Sindicat, providing USD 700,000. Of BIH, Citigroup owns 92 percent, with Lanfranchi and the consulting firm controlling the remaining 8 percent. As Azerbaijan's largest brewer, Baku Castel has the capacity to produce 60 million liters of beer per year.

¶6. (C) The sale of Baku Castel is pending the approval of the Government of Azerbaijan antimonopoly department at the Ministry of Economic Development. Carlsberg has sent a team to Baku to do due diligence on the investment. Lanfranchi said he talked to Economic Development Minister Heydar Babayev, who reportedly was surprised by the decision to sell the brewery.

¶7. (C) COMMENT: Baku Castel has been one of the largest U.S. investments in the non-energy sector. Investment and development of the non-energy sector is critical to Azerbaijan's long-term development. Lanfranchi is not a naive business investor. He was chief legal counsel for the Groupe Castel and now has numerous investments in difficult regions of the world, including central Asia and Africa. While the sale of the Baku Castel will not hurt Azerbaijan's "Doing Business" rating, the tactics employed by strong local business interests are unfortunately too common in Azerbaijan's difficult business environment. END COMMENT.
DERSE